

Message Text

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PAGE 01 LONDON 10138 011746Z

63

ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-02

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 LAB-04

SIL-01 L-03 H-02 PA-02 PRS-01 AGR-10 FEA-01 /112 W

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R 011733Z JUL 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 2517

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY THE HAGUE

USMISSION EC BRUSSELS

USMISSION OECD PARIS

UNCLAS LONDON 10138

DEPARTMENT PASS TREASURY FOR SYVRUD, AND FRB

E.O. 11652:N/A

TAGS: EFIN, EGEN, UK

SUBJECT: HEALEY ANNOUNCED GOVERNMENT PROPOSAL TO LIMIT
WAGE INCREASES TO 10 PERCENT

REF: LONDON 9799

1. CHANCELLOR HEALEY, SPEAKING TO PARLIAMENT TODAY
(JULY 1). ANNOUNCED THAT THE GOVERNMENT WILL IMPOSE
COMPULSORY CONTROLS TO LIMIT WAGE INCREASES TO 10 PERCENT
IF AGREEMENT ON VOLUNTARY RESTRAINTS CANNOT BE REACHED.
HEALEY STATED: "WE ARE DETERMINED TO BRING THE RATE OF
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PAGE 02 LONDON 10138 011746Z

INFLATION TO 10 PERCENT BY THE END OF THE NEXT PAY ROUND

AND TO SINGLE FIGURES BY THE END OF 1976." THIS SAME 10 PERCENT LIMIT WOULD APPLY TO COMPANY DIVIDENDS AS WELL. HEALEY STATED THAT THE GOVERNMENT PREFERRED TO TACKLE INFLATION ON THE BASIS OF VOLUNTARY POLICY AGREED WITH BOTH THE TRADE UNIONS AND INDUSTRIAL MANAGEMENT "BUT A VOLUNTARY POLICY WILL NOT BE ACCEPTABLE TO THE GOVERNMENT UNLESS IT STATES THE TARGET DATES SET FOR REDUCING INFLATION AND INCLUDES CONVINCING ARRANGEMENTS FOR INSURING COMPLIANCE." HEALEY FURTHER STATED THAT IF THE UNIONS AND MANAGEMENT CANNOT REACH AGREEMENT WHICH MEETS THE ABOVE CONDITIONS, THE GOVERNMENT WILL BE OBLIGED TO IMPOSE LEGAL REQUIREMENTS ON BOTH PUBLIC AND PRIVATE SECTORS EMPLOYERS TO COMPLY WITH THE 10 PERCENT LIMIT.

2. HEALEY TOLD PARLIAMENT THAT THE GOVERNMENT HAD REACHED THE ADVANCED STAGE OF PREPARING MEASURES WHICH WOULD BE "FAIR AND JUST" TO ALL SECTIONS OF SOCIETY. A GOVERNMENT WHITE PAPER WILL BE RELEASED BY THE END OF NEXT WEEK.

3. WHILE THE 10 PERCENT TARGET LIMITATION ON WAGE SETTLEMENTS IS FIXED, THE DECISION AS TO WHETHER IT IS TO BE REACHED THROUGH PERCENTAGE INCREASES OR A FLAT RATE INCREASE, OR A COMBINATION OF THE TWO, WAS NOT FIRMLY OUTLINED. HOWEVER, IT APPEARS THAT FIXED CASH LIMITS WILL BE UTILIZED IN THE PUBLIC SECTOR IN ORDER TO AVOID INCREASED PUBLIC EXPENDITURE WHILE ACTION THROUGH THE PRICE CODE WILL BE UTILIZED TO REGULATE THE PRIVATE SECTOR (E.G., WAGE INCREASES WOULD NOT BE PERMITTED TO BE PASSED ON THROUGH PRICE INCREASES). THIS APPEARS CONSISTENT WITH CONVERSATION REPORTED IN REFTEL.

4. COMMENT: THE ANNOUNCEMENT CAME EARLIER THAN EXPECTED AND WILL BE VIEWED AS A RESPONSE FORCED BY THE RAPID DECLINE IN STERLING CONFIDENCE OVER THE PAST WEEK. IT BECAME KNOWN EARLY IN THE DAY THAT HEALEY WAS TO MAKE A PREVIOUSLY UNSCHEDULED STATEMENT TO PARLIAMENT, WITH STERLING AND THE STOCK MARKET RISING IN ANTICIPATION.
RICHARDSON

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